

CREDIT OPINION

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Louisville & Jefferson Co. Metro. Govt., KY

Update to credit analysis

Summary

[Louisville & Jefferson County Metro Government, KY](#) (Aa1 stable) benefits from a growing, sizeable and regionally significant tax base that serves as a major economic hub in the [Commonwealth of Kentucky](#) (Aa3 stable). Resident income levels are healthy, although slightly below the medians for the rating category. Louisville Metro's reserve and liquidity levels are satisfactory and, while they fall short of the national medians for the Aa1 rating category as a percentage of revenue, they have historically been stable, supported by annual budgeted increases to unassigned fund balance. The government's credit profile also reflects manageable debt and pension burdens.

On October 19, we assigned a Aa1 rating to Louisville Metro's \$15.8 million Tax-Exempt General Obligation Bonds (Butchertown Stadium District Redevelopment Project), Series 2018A and \$14.8 million Taxable General Obligation Bonds (Butchertown Stadium Redevelopment Project), Series 2018B.

Credit strengths

- » Sizeable and growing tax base serving as a regionally important economic hub
- » Stable financial operations
- » Manageable debt burden

Credit challenges

- » Lower reserves and liquidity relative to national peers
- » Resident income levels below Aa1 median
- » Higher pension burden compared to medians for the rating category

Rating outlook

The outlook reflects the improving and regionally important local economy and the likelihood that reserves and liquidity will remain stable.

Factors that could lead to an upgrade

- » Material and sustained improvement in reserve and liquidity levels
- » Continued tax base growth and improvement in the county's socioeconomic profile
- » Decline in debt burden

Factors that could lead to a downgrade

- » Trend of operating deficits and narrowing reserve levels
- » Material declines in tax base values and wealth levels
- » Significant increase in debt burden

Key indicators

Exhibit 1

Louisville & Jefferson Co. Metro. Govt., KY	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$81,491,381	\$79,922,269	\$81,876,791	\$86,326,372	\$89,280,860
Population	746,580	751,485	755,809	759,724	759,724
Full Value Per Capita	\$109,153	\$106,352	\$108,330	\$113,629	\$117,517
Median Family Income (% of USMedian)	95.2%	95.1%	95.3%	95.3%	95.3%
Finances					
Operating Revenue (\$000)	\$602,946	\$613,175	\$654,871	\$682,616	\$772,072
Fund Balance (\$000)	\$74,689	\$78,559	\$92,880	\$104,213	\$103,110
Cash Balance (\$000)	\$59,625	\$66,052	\$77,015	\$89,652	\$94,880
Fund Balance as a % of Revenues	12.4%	12.8%	14.2%	15.3%	13.4%
Cash Balance as a % of Revenues	9.9%	10.8%	11.8%	13.1%	12.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$528,087	\$487,128	\$491,967	\$636,152	\$645,172
3-Year Average of Moody's ANPL (\$000)	N/A	\$1,320,335	\$1,240,905	\$1,263,546	\$1,411,925
Net Direct Debt / Full Value (%)	0.6%	0.6%	0.6%	0.7%	0.7%
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.8x	0.9x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.7%	1.5%	1.5%	1.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.2x	1.9x	1.9x	1.8x

Source: Louisville Metro Audited Financial Statements; Moody's Investors Service

Profile

Louisville Metro is an important regional metropolitan center located in the bluegrass region of the [Commonwealth of Kentucky](#) (Aa3 stable), approximately 80 miles west of [Lexington-Fayette Urban County Govt., KY](#) (Aa2 stable), that supports a variety of industries including manufacturing and logistics. Louisville Metro encompasses 397.7 square miles and has a 2016 population of 759,724 according to the most recent U.S. Census American Community Survey, which represents a 2.5% increase from 2010.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Detailed credit considerations

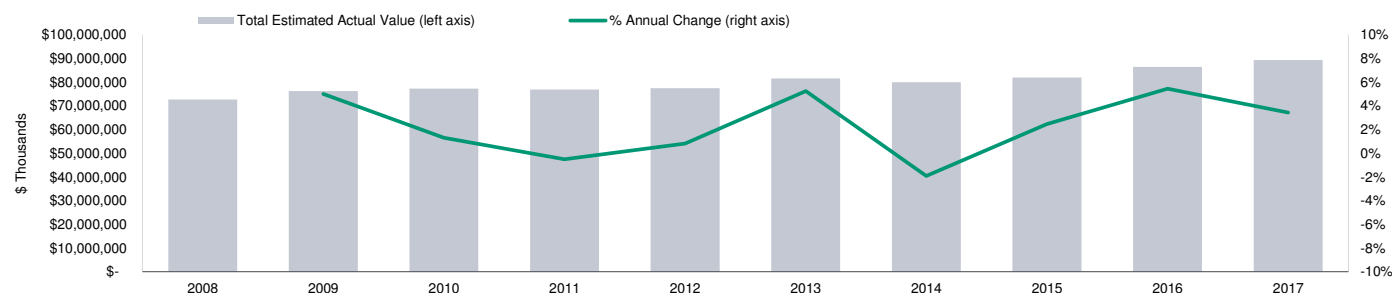
Economy and Tax Base: Sizeable and Regionally Significant Tax Base

Louisville & Jefferson County Metro Government's sizeable tax base will continue to experience steady growth, driven by new development and property-value appreciation. The tax base grew by 3.4% in fiscal 2017 to \$89.3 billion (combined estimated actual value of the Metro area and Urban Services District), which is large compared to the national medians for the Aa1 rating category.

Louisville Metro serves as a major employment hub for residents of Jefferson County and surrounding adjacent areas of the Commonwealth, as well as southern Indiana. The local economy is diverse, but largely driven by manufacturing, transportation, healthcare, and various professional services given the city's favorable access to several interstate highways (I-65, I-64 and I-71).

Exhibit 2

Sizeable Tax Base Continues to Exhibit Healthy Annual Growth 5-year average annual growth rate of 2.9% (fiscal years 2013-2017)



Combined Metro Government and Urban Services District Total Estimated Actual Values (Full Values)

Source: Louisville Metro Audited Financial Statements; Moody's Investors Service

Major employers include [United Postal Service, Inc.](#) (UPS, A1 stable), [Ford Motor Company](#) (Baa3 negative), and [Humana, Inc.](#) (Baa3 stable). Recent announcements include an expansion at UPS' Centennial Hub/Worldport Facility, a \$900 million investment by Ford Motor Company at their Louisville Truck Assembly Plant, and a \$200 million investment by GE Appliances that is slated to create 400 jobs. Additionally, the Kentucky International Convention Center recently reopened in August of 2018 following substantial renovations, which has spurred the renovation and construction of several hotels downtown. Louisville Metro also benefits from the institutional presence of the [University of Louisville](#) (A3 negative), which has an enrollment (full-time equivalent) of nearly 18,500 students.

Louisville Metro's August 2018 unemployment rate of 3.9% is comparable to the state (4.1%) and national (3.9%) rates for the same period. Additionally, the government's population growth has been steady, increasing by 4.1% since 2010 to 759,724 in 2016, according to the most recent U.S. Census American Community Survey. Resident income levels are healthy with median family income equal to 95.3% of the US, but are lower than similarly-rated peers nationwide.

Financial Operations and Reserves: Stable Financial Operations; Satisfactory Reserves and Liquidity

Louisville Metro's financial position will remain stable, as local economic expansion continues to drive growth in operating revenues and management continues to control expenditures. At fiscal year-end 2017, total operating fund balance (inclusive of both the general and debt service fund) was \$104.4 million, or 13.5% of combined operating fund revenues, which is sizeable on an absolute level but below the national Aa1 median as a percentage of revenues. Available operating fund balance (unassigned, assigned, and committed portions) was 13.4% for fiscal 2017. Over the past five fiscal years, the government's available fund balance has averaged 13.6% of revenues.

The government's primary revenue sources are occupational license fees (inclusive of a payroll withholding, a net profits tax, and an insurance premiums tax) and property taxes, which represented approximately 52% and 20% of operating fund revenues in fiscal 2017, respectively.

Management estimates fiscal 2018 ended with a modest increase in unassigned general fund balance to at least \$69.4 million, largely driven by increased collections in major revenue sources and continued expenditure control. The fiscal 2019 budget is balanced and includes a \$500,000 addition to unassigned fund balance.

LIQUIDITY

Louisville Metro's operating fund (inclusive of both the general and debt services fund) reported net cash and investments of \$94.9 million at fiscal year-end 2017, or a satisfactory 12.3% of combined operating fund revenues, which is satisfactory but below the national Aa1 median as a percentage of revenues. Operating fund cash has averaged 11.6% of revenues over the past five fiscal years.

Debt and Pensions: Debt Burden Will Remain Manageable Despite Additional Borrowing Plans

Louisville Metro's direct debt burden will likely remain manageable, despite future debt plans. Inclusive of the current issuance, the government's direct debt burden represents approximately 0.8% of fiscal 2017 full valuation, which is a level comparable to the national medians for the Aa1 rating category. The city's net direct debt reflects 98% support from the Kentucky Administrative Office of the Courts (AOC) on the city's Series 2007A lease revenue bonds. The fiscal 2019 capital budget authorizes \$82.9 million of additional general obligation debt for various capital improvements and economic development initiatives, including \$22 million that is not expected to be issued until fiscal 2020.

In 2008, the Kentucky Economic Development Authority issued \$350 million of revenue bonds to fund the acquisition, development, construction and financing of an arena in downtown Louisville. Pursuant to an ordinance adopted by the Metro Council, the city agreed to pay up to \$309 million to the Louisville Arena Authority for debt service on the bonds over a 30-year period. The authority refunded the 2008 revenue bonds in 2017 and entered into a new agreement with Louisville Metro where they agreed to pay \$10.8 million annually directly to the trustee until the earlier of 2054 or until the debt is repaid.

DEBT STRUCTURE

All of the government's debt is fixed rate and amortized over the long-term.

DEBT-RELATED DERIVATIVES

The government is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

Louisville Metro administers two closed single-employer pension plans, the Policemens' Retirement Fund and the Firefighters' Pension Fund. Additionally, the government participates in the Kentucky County Employees' Retirement System (CERS), a multi-employer cost sharing pension plan administered by the Kentucky Retirement System. Moody's combined three-year adjusted net pension liability (ANPL) for the government, under our methodology for adjusting reported pension data, is \$1.4 million, or 1.83 times fiscal 2017 operating revenues, which is slightly above the national Aa1 median of 1.53 times.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported contribution information, but to improve comparability with other rated entities. Note, we exclude the contributions from the city's essential component units, as well as the liabilities of the city's essential component units.

Fixed costs (debt service, OPEB, and pension contributions) represent approximately 18% of operating revenues.

Management and Governance

Kentucky Cities have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Property and occupational license taxes, the primary revenue sources, are highly predictable. Cities have moderate revenue-raising ability and can increase property taxes by 4% annually. Cities with populations of 15,000 and above also have a property tax cap of 15 mills. Cities with population of 1,000 or higher have the power to levy an occupational license tax. The tax rate is unlimited for cities with populations up to 300,000 and capped at 1.25% for larger cities. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Kentucky is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

Louisville & Jefferson County Metropolitan Government is a merged city/county form of government created in 2003. The city is governed by a 26 member council elected to staggered, four-year terms and a mayor elected to a four-year term. The city has a formal policy to maintain unassigned fund balance at one to two months of budgeted general fund expenditures.

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